ECONOMICS EXAM NOTES

WEEK 1

- Economics is the study of how a society manages its scarce resources
- There are seven central ideas or 'lessons' that economics is based on:
    1. **People face trade-offs:** one major trade-off is that between **efficiency** (getting the most out of scarce resources) and **equity** (fair distribution of resources)
    2. **The cost of something is what you give up to get it:** The **opportunity cost** is the next alternative that is given up to obtain a good
    3. **Rational people think at the margin:** marginal changes are incremental adjustments to a plan of action; if marginal benefits outweigh marginal costs, it is rational to take that course of action
    4. **People respond to incentives:** incentives are important for policymakers because they influence people's decisions and induce action (e.g. punishment, reward).
    5. **Trade can make everyone better off:** a trade is a mutually beneficial exchange of goods and/or services that make everyone happy. Trading allows everyone to specialise in their own field and purchase a variety of goods at lower costs
    6. **Markets are a good way to organise economic activity:** The **invisible hand** is the concept that firms and individuals in a market are guided by their own self-interest but end up contributing to produce the most efficient outcome to society
    7. **Governments can interfere to improve market outcomes:** market failure occurs when a market fails to allocate resources efficiently; government intervention can make markets more efficient and/or equitable. A couple of ways governments can impose better market outcomes is by imposing private property rights, reducing **externalities** (the impact of an economic activity on a bystander) and allocating market power

WEEK 2

- A **competitive market** is that in which there are many buyers and sellers such that any one individual has a negligible impact on the market price
- Demand is defined as the quantities of a good that people are able and willing to buy at various prices at a particular point in time. The **law of demand** states that as price of a good increases, the quantity demanded decreases.
- Graphically, the demand curve is a downwards sloping linear plot that shows the relationship between the quantity demanded of a good and the price of the good
- Market demand is the horizontal summation of the individual demands for the particular good or service
- Changes in price cause a movement along a demand curve; a **non-price factor** is not on either axes and so shifts the entire curve left (decreased Q_D) or right (increase Q_D); some